GLOBAL PAYMENTS INC
Form 10-Q
October 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-16111

GLOBAL PAYMENTS INC.
(Exact name of registrant as specified in charter)

| Georgia | 58-2567903 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3550 Lenox Road, Atlanta, Georgia | 30326 |
| (Address of principal executive offices) | (Zip Code) |

Registrant’s telephone number, including area code: (770) 829-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer | Accelerated filer |
|---|---|
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares of the issuer's common stock, no par value, outstanding as of October 28, 2018 was 158,212,663.

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FORM 10-Q
For the quarterly period ended September 30, 2018

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PART 1 - FINANCIAL INFORMATION

ITEM 1—FINANCIAL STATEMENTS

GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

| | Three Months Ended | |
|---|---|---|
| | September 30, 2018 | September 30, 2017 |
| Revenues | $ 857,670 | $ 1,038,907 |
| Operating expenses: | | |
| Cost of service | 265,013 | 493,883 |
| Selling, general and administrative | 369,495 | 372,553 |
| | 634,508 | 866,436 |
| Operating income | 223,162 | 172,471 |
| | | |
| Interest and other income | 3,134 | 2,347 |
| Interest and other expense | (46,356 ) | (40,764 ) |
| | (43,222 ) | (38,417 ) |
| Income before income taxes | 179,940 | 134,054 |
| Benefit from (provision for) income taxes | 6,089 | (15,692 ) |
| Net income | 186,029 | 118,362 |
| Net income attributable to noncontrolling interests, net of income tax | (9,659 ) | (7,622 ) |
| Net income attributable to Global Payments | $ 176,370 | $ 110,740 |
| | | |
| Earnings per share attributable to Global Payments: | | |
| Basic earnings per share | $ 1.12 | $ 0.72 |
| Diluted earnings per share | $ 1.11 | $ 0.71 |

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2018 | | September 30, 2017 | |
| Revenues | $2,485,811 | | $2,920,910 | |
| Operating expenses: | | | | |
| Cost of service | 781,943 | | 1,418,969 | |
| Selling, general and administrative | 1,133,799 | | 1,092,648 | |
| | 1,915,742 | | 2,511,617 | |
| Operating income | 570,069 | | 409,293 | |
| | | | | |
| Interest and other income | 17,397 | | 5,787 | |
| Interest and other expense | (139,681 | ) | (130,422 | ) |
| | (122,284 | ) | (124,635 | ) |
| Income before income taxes | 447,785 | | 284,658 | |
| Provision for income taxes | (46,441 | ) | (40,893 | ) |
| Net income | 401,344 | | 243,765 | |
| Net income attributable to noncontrolling interests, net of income tax | (24,506 | ) | (17,302 | ) |
| Net income attributable to Global Payments | $376,838 | | $226,463 | |
| | | | | |
| Earnings per share attributable to Global Payments: | | | | |
| Basic earnings per share | $2.37 | | $1.48 | |
| Diluted earnings per share | $2.36 | | $1.47 | |

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

| | Three Months Ended | |
|---|---|---|
| | September 30, 2018 | September 30, 2017 |
| Net income | $186,029 | $ 118,362 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (15,395) | 42,417 |
| Income tax benefit related to foreign currency translation adjustments | 140 | — |
| Unrealized gains on hedging activities | 1,845 | 341 |
| Reclassification of unrealized (gains) losses on hedging activities to interest expense | (1,663) | 1,172 |
| Income tax provision related to hedging activities | (110) | (670) |
| Other, net | (58) | 18 |
| Other comprehensive income (loss), net of tax | (15,241) | 43,278 |
| Comprehensive income | 170,788 | 161,640 |
| Comprehensive income attributable to noncontrolling interests | (21,333) | (9,950) |
| Comprehensive income attributable to Global Payments | $149,455 | $ 151,690 |

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2018 | September 30, 2017 |
| Net income | $401,344 | $ 243,765 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (80,620) | 133,921 |
| Income tax provision related to foreign currency translation adjustments | (224) | — |
| Unrealized gains (losses) on hedging activities | 12,353 | (2,214) |
| Reclassification of unrealized (gains) losses on hedging activities to interest expense | (2,830) | 4,667 |
| Income tax provision related to hedging activities | (2,420) | (919) |
| Other, net | (59) | (196) |
| Other comprehensive income (loss), net of tax | (73,800) | 135,259 |
| Comprehensive income | 327,544 | 379,024 |
| Comprehensive income attributable to noncontrolling interests | (36,264) | (32,352) |
| Comprehensive income attributable to Global Payments | $291,280 | $ 346,672 |

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $990,604 | $1,335,855 |
| Accounts receivable, net of allowances for doubtful accounts of $3,495 and $1,827, respectively | 321,664 | 301,887 |
| Settlement processing assets | 2,894,226 | 2,459,292 |
| Prepaid expenses and other current assets | 207,496 | 206,545 |
| Total current assets | 4,413,990 | 4,303,579 |
| Goodwill | 6,130,921 | 5,703,992 |
| Other intangible assets, net | 2,278,968 | 2,181,707 |
| Property and equipment, net | 640,976 | 588,348 |
| Deferred income taxes | 9,237 | 13,146 |
| Other noncurrent assets | 365,144 | 207,297 |
| Total assets | $13,839,236 | $12,998,069 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Settlement lines of credit | $685,878 | $635,166 |
| Current portion of long-term debt | 92,689 | 100,308 |
| Accounts payable and accrued liabilities | 1,065,435 | 1,039,607 |
| Settlement processing obligations | 2,423,069 | 2,040,509 |
| Total current liabilities | 4,267,071 | 3,815,590 |
| Long-term debt | 4,707,510 | 4,559,408 |
| Deferred income taxes | 516,357 | 436,879 |
| Other noncurrent liabilities | 172,730 | 220,961 |
| Total liabilities | 9,663,668 | 9,032,838 |
| Commitments and contingencies | | |
| Equity: | | |
| Preferred stock, no par value; 5,000,000 shares authorized and none issued | — | — |
| Common stock, no par value; 200,000,000 shares authorized; 158,186,371 issued and outstanding at September 30, 2018 and 159,180,317 issued and outstanding at December 31, 2017 | — | — |
| Paid-in capital | 2,250,828 | 2,379,774 |
| Retained earnings | 1,994,003 | 1,597,897 |
| Accumulated other comprehensive loss | (270,545) | (183,144) |
| Total Global Payments shareholders' equity | 3,974,286 | 3,794,527 |
| Noncontrolling interests | 201,282 | 170,704 |
| Total equity | 4,175,568 | 3,965,231 |
| Total liabilities and equity | $13,839,236 | $12,998,069 |

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2018 | September 30, 2017 |
| Cash flows from operating activities: | | |
| Net income | $401,344 | $243,765 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 105,734 | 80,868 |
| Amortization of acquired intangibles | 263,714 | 249,095 |
| Share-based compensation expense | 44,937 | 30,771 |
| Provision for operating losses and bad debts | 32,309 | 37,203 |
| Amortization of capitalized contract costs | 37,281 | 32,863 |
| Deferred income taxes | (4,973) | (51,093) |
| Other, net | (17,185) | 34,190 |
| Changes in operating assets and liabilities, net of the effects of acquisitions: | | |
| Accounts receivable | (27,696) | (6,070) |
| Settlement processing assets and obligations, net | (58,693) | (232,713) |
| Prepaid expenses and other assets | (117,824) | (78,302) |
| Accounts payable and other liabilities | 2,058 | 19,546 |
| Net cash provided by operating activities | 661,006 | 360,123 |
| Cash flows from investing activities: | | |
| Business and other acquisitions, net of cash acquired | (769,082) | (563,009) |
| Capital expenditures | (156,060) | (136,612) |
| Proceeds from sales of property and equipment | 131 | 37,520 |
| Other, net | (2,514) | (48,056) |
| Net cash used in investing activities | (927,525) | (710,157) |
| Cash flows from financing activities: | | |
| Net borrowings of settlement lines of credit | 49,381 | 77,397 |
| Proceeds from long-term debt | 1,606,214 | 1,713,324 |
| Repayments of long-term debt | (1,468,505) | (1,386,721) |
| Payment of debt issuance costs | (12,544) | (9,520) |
| Repurchase of common stock | (180,897) | (32,811) |
| Proceeds from stock issued under share-based compensation plans | 12,571 | 7,068 |
| Common stock repurchased - share-based compensation plans | (44,824) | (21,171) |
| Distributions to noncontrolling interests | (5,686) | (9,301) |
| Dividends paid | (4,750) | (5,141) |
| Net cash (used in) provided by financing activities | (49,040) | 333,124 |
| Effect of exchange rate changes on cash | (29,692) | 40,181 |
| (Decrease) increase in cash and cash equivalents | (345,251) | 23,271 |
| Cash and cash equivalents, beginning of the period | 1,335,855 | 1,162,779 |
| Cash and cash equivalents, end of the period | $990,604 | $1,186,050 |

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

| | Number of Shares | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Global Payments Shareholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | 159,180 | $2,379,774 | $1,597,897 | $ (183,144 ) | $3,794,527 | $ 170,704 | $3,965,231 |
| Net income | | | 376,838 | | 376,838 | 24,506 | 401,344 |
| Other comprehensive income (loss), net of tax | | | | (85,558 ) | (85,558 ) | 11,758 | (73,800 ) |
| Stock issued under share-based compensation plans | 895 | 12,571 | | | 12,571 | | 12,571 |
| Common stock repurchased - share-based compensation plans | (277 ) | (32,508 ) | | | (32,508 ) | | (32,508 ) |
| Share-based compensation expense | | 44,937 | | | 44,937 | | 44,937 |
| Distributions to noncontrolling interest | | | | | — | (5,686 ) | (5,686 ) |
| Cumulative effect of adoption of new accounting standard | | | 50,969 | (1,843 ) | 49,126 | | 49,126 |
| Repurchase of common stock | (1,612 ) | (153,946 ) | (26,951 ) | | (180,897 ) | | (180,897 ) |
| Dividends paid ($0.03 per share) | | | (4,750 ) | | (4,750 ) | | (4,750 ) |
| Balance at September 30, 2018 | 158,186 | $2,250,828 | $1,994,003 | $ (270,545 ) | $3,974,286 | $ 201,282 | $4,175,568 |

| | Number of Shares | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Global Payments Shareholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2016 | 152,186 | $1,816,278 | $1,137,230 | $ (322,717 ) | $2,630,791 | $ 148,551 | $2,779,342 |
| Net income | | | 226,463 | | 226,463 | 17,302 | 243,765 |
| Other comprehensive income, net of tax | | | | 120,209 | 120,209 | 15,050 | 135,259 |
| Stock issued under share-based compensation plans | 851 | 7,068 | | | 7,068 | | 7,068 |
| Common stock repurchased - | (256 ) | (24,078 ) | | | (24,078 ) | | (24,078 ) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| share-based compensation plans | | | | | | | |
| Share-based compensation expense | | 30,771 | | | 30,771 | | 30,771 |
| Issuance of common stock in connection with a business combination | 6,358 | 572,079 | | | 572,079 | | 572,079 |
| Dissolution of a subsidiary | | | 7,998 | | 7,998 | (7,998 ) | — |
| Distributions to noncontrolling interest | | | | | — | (9,301 ) | (9,301 ) |
| Repurchase of common stock | (376 ) | (25,787 ) | (9,024 ) | | (34,811 ) | | (34,811 ) |
| Dividends paid ($0.03133 per share) | | | (5,141 ) | | (5,141 ) | | (5,141 ) |
| Balance at September 30, 2017 | 158,763 | $2,376,331 | $1,357,526 | $ (202,508 ) | $3,531,349 | $ 163,604 | $3,694,953 |

See Notes to Unaudited Consolidated Financial Statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business, consolidation and presentation— We are a leading worldwide provider of payment technology and software solutions delivering innovative services to our customers globally. Our technologies, services and employee expertise enable us to provide a broad range of solutions that allow our customers to accept various payment types and operate their businesses more efficiently. We distribute our services across a variety of channels in 31 countries throughout North America, Europe, the Asia-Pacific region and Brazil and operate in three reportable segments: North America, Europe and Asia-Pacific.

We were incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from our former parent company in 2001. Including our time as part of our former parent company, we have been in the payment technology services business since 1967. Global Payments Inc. and its consolidated subsidiaries are referred to collectively as "Global Payments," the "Company," "we," "our" or "us," unless the context requires otherwise.

These unaudited consolidated financial statements include our accounts and those of our majority-owned subsidiaries, and all intercompany balances and transactions have been eliminated in consolidation. These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The consolidated balance sheet as of December 31, 2017 was derived from the audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 but does not include all disclosures required by GAAP for annual financial statements.

In the opinion of our management, all known adjustments necessary for a fair presentation of the results of the interim periods have been made. These adjustments consist of normal recurring accruals and estimates that affect the carrying amount of assets and liabilities. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Use of estimates— The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

Recently Adopted Accounting Pronouncements

New Revenue Accounting Standard

We adopted Accounting Standards Update ("ASU") 2014-09, as well as other clarifications and technical guidance issued by the Financial Accounting Standards Board ("FASB") related to this new revenue standard (collectively codified in Accounting Standards Codification ("ASC") Topic 606: Revenue from Contracts with Customers, "ASC 606" and ASC Subtopic 340-40: Other Assets and Deferred Costs - Contracts with Customers, "ASC 340-40"), on January 1, 2018. We elected the modified retrospective transition method, which resulted in a net increase to retained earnings of $51.0 million for the cumulative effect of applying the standard. The primary component of the cumulative-effect adjustment was the result of changes in the accounting for certain costs to obtain customer contracts and the related income tax effects, which resulted in increases to other noncurrent assets and deferred income tax liabilities of $64.6 million and $15.6 million, respectively. Previously, we amortized these assets to expense over the related contract term. Under ASC 340-40, we now amortize these assets over the expected period of benefit, which is

generally longer than the initial contract term. Under the new standard, we also capitalized certain costs that were not previously capitalized, including certain commissions and related payroll taxes and certain costs incurred to fulfill a contract before the performance obligation has been satisfied, primarily compensation to employees engaged in customer implementation activities in our technology-enabled businesses.

Under the modified retrospective transition method, we are required to provide additional disclosures during 2018 of the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes, if any. For the three and nine months ended September 30, 2018, we presented revenue net of certain payments made to third parties, including payment networks. This change in presentation

had the effect of reducing our revenues and operating expenses by the same amounts. As a result, revenues, cost of service and selling, general and administrative expenses were lower than the amounts without the effect of the new accounting standard by $291.3 million, $273.6 million and $17.7 million, respectively, during the three months ended September 30, 2018; and lower than the amounts without the effect of the new accounting standard by $825.5 million, $774.5 million and $51.0 million, respectively, during the nine months ended September 30, 2018. The adoption of ASC 606 did not have a material effect on any other line items in our consolidated statement of income for the three and nine months ended September 30, 2018 or consolidated balance sheet as of September 30, 2018, and had no effect on our cash flows from operating activities, investing activities or financing activities included in our consolidated statement of cash flows for the nine months ended September 30, 2018.

Other Recently Adopted Accounting Standards Updates

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In addition, the amendments in this update modify disclosure requirements for presentation of hedging activities. Those modifications include a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges and eliminate the requirement to disclose the ineffective portion of the change in fair value of hedging instruments, if any. We adopted ASU 2017-12 on January 1, 2018 with no effect on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The ASU clarifies the definition of a business, which affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The new standard is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses, with the expectation that fewer will qualify as acquisitions (or disposals) of businesses. The ASU became effective for us on January 1, 2018. These amendments have been applied prospectively from the date of adoption. The effect of ASU 2017-01 is dependent upon the nature of future acquisitions or dispositions that we make.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The amendments in this update state that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory, such as intellectual property and property and equipment, when the transfer occurs. We adopted ASU 2016-16 on January 1, 2018 using the modified retrospective transition method with no effect on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through earnings. Equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this update. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. We adopted ASU 2016-01 on January 1, 2018 using the modified retrospective transition method with no material effect on our consolidated financial statements.

Recently Issued Pronouncements Not Yet Adopted

New Lease Accounting Standard

In February 2016, the FASB issued ASU 2016-02, "Leases." This update requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. In addition, several new disclosures will be required.

Although early adoption is permitted, we expect to adopt ASU 2016-02, as well as other related clarifications and interpretive guidance issued by the FASB, when it becomes effective for us on January 1, 2019. We plan to elect the optional modified retrospective transition method to apply the provisions of the new standard at the adoption date, which will result in recognition and measurement



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of assets and liabilities for the rights and obligations created by leases in the period of adoption. Under this transition method, we would not recast the prior financial statements presented.

We have not completed our evaluation of the effect of ASU 2016-02 on our consolidated financial statements; however, we expect to recognize right of use assets and liabilities for our operating leases in the balance sheet upon adoption. We plan to elect the transition package of three practical expedients, which among other things, allows for the carryforward of historical lease classifications, and we expect to make an accounting policy election to not apply the recognition requirements to leases with a term of less than twelve months.

Our existing leases consist primarily of real estate leases for office space throughout the markets in which we conduct business. We are currently finalizing the analysis of our existing lease arrangements to evaluate the potential effects of this new accounting standard on our consolidated financial statements. We expect to implement new accounting processes and internal controls to meet the requirements for financial reporting and disclosures of our leases and are coordinating with various internal stakeholders to evaluate, design and implement these new processes and controls. We are also implementing a new technology solution to assist with the necessary calculations to support the accounting and disclosure requirements of the new accounting standard. We expect these evaluation and implementation activities will continue throughout the remainder of 2018 prior to the effective date of adoption on January 1, 2019.

SEC Rules and Other Accounting Standards Updates Not Yet Adopted

In August 2018, the SEC issued a final rule that amends certain of its disclosure requirements. The changes are generally intended to reduce or eliminate certain disclosures that have become redundant, duplicative, overlapping, outdated or superseded in light of other disclosures requirements or changes in the information environment. The rule also requires SEC registrants to present changes in stockholders' equity and the amount of dividends per share for each class of shares on a quarterly basis for the current and prior-year periods. The final rule is effective for SEC filings on Forms 10-Q and 10-K made on or after November 5, 2018.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is Service Contract (A Consensus of the FASB Emerging Issues Task Force)." This ASU provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The amendments in this update also provide additional disclosure requirements to disclose the nature of an entity’s hosting arrangements that are service contracts. This ASU is effective for annual and interim periods beginning after December 15, 2019. We are evaluating the effect of ASU 2018-15 on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." This ASU provides an update to modify the disclosure requirements on fair value measurements in Topic 820. This ASU is effective for annual and interim periods beginning after December 15, 2019. We are evaluating the effect of ASU 2018-13 on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU provides an option to reclassify stranded tax effects within accumulated other comprehensive income ("AOCI") to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. Tax Cuts and Jobs Act of 2017 (the "2017 U.S. Tax Act") (or portion thereof) is recorded. This ASU requires disclosure of a description of the accounting policy for releasing income tax effects from AOCI; whether election is made to reclassify the stranded income tax effects from the 2017 U.S. Tax Act; and information about the income tax effects

that are reclassified. This ASU is effective for annual and interim periods beginning after December 15, 2018. Although we do not believe adoption of ASU 2018-02 will have a material effect on our consolidated financial statements, we are continuing to evaluate whether to elect the option.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this update change how companies measure and recognize credit impairment for many financial assets. The new expected credit loss model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets (including trade receivables) that are in the scope of the update. The update also made amendments to the current impairment model for held-to-maturity and available-for-sale debt securities and certain guarantees. The guidance will become effective for us on January 1, 2020. Early adoption is permitted for periods beginning on or after January 1, 2019. We are evaluating the effect of ASU 2016-13 on our consolidated financial statements.

NOTE 2—ACQUISITIONS

See "Note 14—Subsequent Events" for a discussion of an additional business acquisition we completed in October 2018.

AdvancedMD

On September 4, 2018, we acquired AdvancedMD, Inc. ("AdvancedMD"), a provider of cloud-based enterprise software solutions to small-to-medium sized ambulatory physician practices in the United States. We believe the acquisition will expand our software-driven payments strategy by enabling us to enter the healthcare vertical market, a large and fragmented market with strong payment fundamentals and attractive growth opportunities.

We paid the seller cash consideration of approximately $700 million, which we funded with cash on hand and by drawing on our Revolving Credit Facility (described in Note 6—Long-Term Debt and Lines of Credit).

This transaction was accounted for as a business combination, which requires that we record the assets acquired and liabilities assumed at fair value as of the acquisition date. Due to the timing of the acquisition, the accounting for this acquisition was not complete as of September 30, 2018. The fair values of the assets acquired and the liabilities assumed have been determined provisionally and are subject to adjustment as we obtain additional information. In particular, additional time is needed to determine the valuation of assets and liabilities and to evaluate the basis differences for assets and liabilities for financial reporting and tax purposes.

As of September 30, 2018, we provisionally estimated that substantially all of the total identifiable assets were comprised of goodwill and other intangible assets. We expect the intangible assets to be similar in nature to intangible assets we have acquired in other recent acquisitions, including customer-related intangible assets and acquired technology. Further, our methodology for estimating the acquisition-date fair values of identified intangible assets is consistent with the approach we have applied in other recent acquisitions of similar businesses.

Goodwill arising from the acquisition, included in the North America segment, was attributable to expected growth opportunities, potential synergies from combining our existing businesses and an assembled workforce. Due to the timing of the transaction, we have not allocated the provisional estimated goodwill of $469 million to a reporting unit. We expect that substantially all of the goodwill will not be deductible for income tax purposes.

ACTIVE Network

We acquired the communities and sports divisions of Athlaction Topco, LLC ("ACTIVE Network") on September 1, 2017, for total purchase consideration of $1.2 billion. ACTIVE Network delivers cloud-based enterprise software, including payment technology solutions, to event organizers in the communities and health and fitness markets. This acquisition aligns with our technology-enabled, software driven strategy and adds an enterprise software business operating in two additional vertical markets that we believe offer attractive growth fundamentals.

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The following table summarizes the cash and non-cash components of the consideration transferred on September 1, 2017 (in thousands):

| | |
|---|---|
| Cash consideration paid to ACTIVE Network stockholders | $599,497 |
| Fair value of Global Payments common stock issued to ACTIVE Network stockholders | 572,079 |
| | $1,171,576 |

We funded the cash consideration primarily by drawing on our Revolving Credit Facility (described in "Note 6—Long-Term Debt and Lines of Credit"). The acquisition-date fair value of 6,357,509 shares of our common stock issued to the sellers was determined based on the share price of our common stock as of the acquisition date and the effect of certain transfer restrictions.

This transaction was accounted for as a business combination, which requires that we record the assets acquired and liabilities assumed at fair value as of the acquisition date. The estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed, including a reconciliation to the total purchase consideration, are as follows:

| | December 31, 2017 | Measurement-Period Adjustments | September 30, 2018 |
|---|---|---|---|
| | (in thousands) | | |
| Cash and cash equivalents | $42,913 | $ — | $42,913 |
| Property and equipment | 21,985 | (133) | 21,852 |
| Identified intangible assets | 410,545 | — | 410,545 |
| Other assets | 87,240 | (97) | 87,143 |
| Deferred income taxes | (31,643) | 4,003 | (27,640) |
| Other liabilities | (144,132) | (3,349) | (147,481) |
| Total identifiable net assets | 386,908 | 424 | 387,332 |
| Goodwill | 784,668 | (424) | 784,244 |
| Total purchase consideration | $1,171,576 | $ — | $1,171,576 |

The measurement-period adjustments were the result of continued refinement of certain estimates, primarily those regarding the measurement of certain contingencies and deferred income taxes.

Goodwill of $784.2 million arising from the acquisition, included in the North America segment, was attributable to expected growth opportunities, potential synergies from combining our existing businesses and an assembled workforce. We expect that approximately 80% of the goodwill will be deductible for income tax purposes.

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The following reflects the estimated fair values of the identified intangible assets and the respective weighted-average estimated amortization periods:

| | Estimated Fair Values | Weighted-Average Estimated Amortization Periods |
|---|---|---|
| | (in thousands) | (years) |
| Customer-related intangible assets | $ 189,000 | 17 |
| Acquired technology | 153,300 | 9 |
| Trademarks and trade names | 59,400 | 15 |
| Covenants-not-to-compete | 8,845 | 3 |
| Total estimated acquired intangible assets | $ 410,545 | 13 |

The estimated fair value of customer-related intangible assets was determined using the income approach, which is based on projected cash flows discounted to their present value using discount rates that consider the timing and risk of the forecasted cash flows. The discount rate used is the average estimated value of a market participant’s cost of capital and debt, derived using customary market metrics. Acquired technology was valued using the replacement cost method, which required us to estimate the cost to construct an asset of equivalent utility at prices available at the time of the valuation analysis, with adjustments in value for physical deterioration and functional and economic obsolescence. Trademarks and trade names were valued using the relief-from-royalty approach. This method assumes that trademarks and trade names have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method required us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted-average cost of capital. The discount rate used is the average estimated value of a market participant’s cost of capital and debt, derived using customary market metrics.

NOTE 3—REVENUES

We are a leading worldwide provider of payment technology and software solutions delivering innovative services to our customers globally. Our technologies, services and employee expertise enable us to provide a broad range of solutions that allow our customers to accept various payment types and operate their businesses more efficiently. We distribute our services across a variety of channels to customers. The following disclosures in this note are applicable for the three and nine months ended September 30, 2018.

The following tables present a disaggregation of our revenue from contracts with customers by distribution channel for the three and nine months ended September 30, 2018:

| | Three Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | North America | Europe | Asia-Pacific | Total |
| | (in thousands) | | | |
| Direct: | | | | |
| Relationship-led | $254,593 | $105,468 | $ 33,612 | $393,673 |
| Technology-enabled | 317,206 | 52,116 | 22,759 | 392,081 |
| | 571,799 | 157,584 | 56,371 | 785,754 |
| Wholesale | 71,916 | — | — | 71,916 |
| | $643,715 | $157,584 | $ 56,371 | $857,670 |

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| | Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | North America | Europe | Asia-Pacific | Total |
| | (in thousands) | | | |
| Direct: | | | | |
| Relationship-led | $725,874 | $300,642 | $ 101,225 | $1,127,741 |
| Technology-enabled | 896,982 | 155,850 | 68,549 | 1,121,381 |
| | 1,622,856 | 456,492 | 169,774 | 2,249,122 |
| Wholesale | 236,689 | — | — | 236,689 |
| | $1,859,545 | $456,492 | $ 169,774 | $2,485,811 |

ASC 606 requires that we determine for each customer arrangement whether revenue should be recognized at a point in time or over time. For the three and nine months ended September 30, 2018, substantially all of our revenues were recognized over time.

Nature of our Customer Arrangements

Our payment services customers contract with us for payment services, which we provide in exchange for consideration for completed transactions. Our payment solutions are similar around the world in that we enable our customers to accept card, electronic and digital-based payments at the point of sale. Our comprehensive services include authorization services (including electronic draft capture), settlement and funding services, customer support and help-desk functions, chargeback resolution, payment security services, consolidated billing and statements and on-line reporting. In addition, we may sell or rent point-of-sale terminals or other equipment to customers.

At contract inception, we assess the goods and services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a good or service that is distinct. For our payment services specifically, the nature of our promise to the customer is that we stand ready to process transactions the customer requests on a daily basis over the contract term. Since the timing and quantity of transactions to be processed by us is not determinable, we view payment services to comprise an obligation to stand ready to process as many transactions as the customer requires. Under a stand-ready obligation, the evaluation of the nature of our performance obligation is focused on each time increment rather than the underlying activities. Therefore, we view payment services to comprise a series of distinct days of service that are substantially the same and have the same pattern of transfer to the customer. Accordingly, the promise to stand ready is accounted for as a single-series performance obligation.

In order to provide our payment services, we route and clear each transaction through the applicable payment network. We obtain authorization for the transaction and request funds settlement from the card issuing financial institution through the payment network. When third parties are involved in the transfer of goods or services to our customer, we consider the nature of each specific promised good or service and apply judgment to determine whether we control the good or service before it is transferred to the customer or whether we are acting as an agent of the third party. To determine whether or not we control the good or service before it is transferred to the customer, we assess indicators including whether we or the third party is primarily responsible for fulfillment and which party has discretion in determining pricing for the good or service, as well as other considerations. Based on our assessment of these indicators, we have concluded that our promise to our customer to provide our payment services is distinct from the services provided by the card issuing financial institutions and payment networks in connection with payment transactions. We do not have the ability to direct the use of and obtain substantially all of the benefits of the services

provided by the card issuing financial institutions and payment networks before those services are transferred to our customer, and on that basis, we do not control those services prior to being transferred to our customer. As a result, we present our revenue net of the interchange fees charged by the card issuing financial institutions and the fees charged by the payment networks.

The majority of our processing services are priced as a percentage of transaction value or a specified fee per transaction, depending on the card type. We also charge other per occurrence fees based on specific services that may be unrelated to the number of transactions or transaction value. Given the nature of the promise and the underlying fees based on unknown quantities or outcomes of services to be performed over the contract term, the total consideration is determined to be variable consideration. The variable consideration for our payment processing service is usage-based and therefore it specifically relates to our efforts to satisfy our payment services obligation. In other words, the variability is satisfied each day the service is provided to the customer. We directly ascribe variable fees to the distinct day of service to which it relates, and we consider the services performed each

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day in order to ascribe the appropriate amount of total fees to that day. Therefore, we measure revenue for our payment processing service on a daily basis based on the services that are performed on that day.

Certain of our technology-enabled customer arrangements contain multiple promises, such as payment services (as aforementioned, a series of distinct days of service), perpetual software licenses, software-as-a-service ("SaaS"), maintenance, installation services, training and equipment, each of which is evaluated to determine whether it represents a separate performance obligation. SaaS arrangements are generally offered on a subscription basis, providing the customers with access to the SaaS platform along with general support and maintenance services. Because these promised services within our SaaS arrangements are delivered concurrently over the contract term, we account for these promises as if they are a single performance obligation that includes a series of distinct services with the same pattern of transfer to the customer. In addition, certain installation services are not considered distinct from the SaaS, and are therefore recognized over the expected period of benefit.

Once we determine the performance obligations and the transaction price, including an estimate of any variable consideration, we then allocate the transaction price to each performance obligation in the contract using a relative standalone selling price method. We determine standalone selling price based on the price at which the good or service is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price by considering all reasonably available information, including market conditions, trends or other company- or customer-specific factors. Substantially all of the performance obligations described above are satisfied over time. Only equipment sales, perpetual software licenses and certain professional services are generally transferred to the customer at a point in time. For certain other professional services that represent separate performance obligations, we generally use the input method and recognize revenue based on the number of hours incurred or services performed to date in relation to the total services expected to be required to satisfy the performance obligation.